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The Green New Deal: How We Will Pay for It Isn't 'a Thing' - and Inflation Isn't Either

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Representative Alexandria Ocasio-Cortez's announcement of an ambitious new Green New Deal Initiative in Congress has brought predictable – and predictably silly – callouts from conservative pundits and scared politicians. 'How will we pay for it?,' they ask with pretend-incredulity, and 'what about debt?' 'Won't we have to raise taxes, and will that not crowd-out the job creators?'

Representative Ocasio-Cortez already has given the best answer possible to such queries, most of which seem to be raised in bad faith. Why is it, she retorts, that these questions arise only in connection with useful ideas, not wasteful ideas? Where were the 'pay-fors' for Bush's $5 trillion wars and tax cuts, or for last year's $2 trillion tax giveaway to billionaires? Why wasn't financing those massive throwaways as scary as financing the rescue of our planet and middle class now seems to be to these naysayers?

The short answer to 'how we will pay for' the Green New Deal is easy. We'll pay for it just as we pay for all else: Congress will authorize necessary spending, and Treasury will spend. This is how we do it – always has been, always will be.

The money that's spent, for its part, is never 'raised' first. To the contrary, federal spending is what brings that money into existence.

If years of bad or no economic education make that ring counterintuitive to you, you're not alone: politicians and pundits who ought to know better are with you. But the problem is readily remedied: just take a look at a dollar (or five dollar, or ten dollar, or … dollar) bill. The face you see is George Washington's – a public official's – not yours or some other private sector person's. The signatures you'll find, for their part, are those of the Treasurer and the Treasury Secretary, not yours or some other private sector person's. And the inscription you'll read across the top is 'Federal Reserve Note,' not 'Private Sector Sally's Note.'

'Note' here, note carefully, means 'promissory note.' Money betokens a promise. Hence money's relation to credit. We'll come back to this later. The money that Treasury spends is, in any event, jointly Fed- and Treasury-issued, not privately issued. That is to say it's the *citizenry's* issuance, not some single *citizen's* issuance. It's like a promise we make to each other. Hence the term 'full faith and credit' you'll hear about when asking what 'backs' our currency and our Treasury securities.

This fact of public finance bears real consequences. Chief among them for present purposes is that 'raising the money' is never the relevant question for federal spending, any more than 'finding the promises' is a question for people who make and keep promises to one another. The relevant question, rather, is what limits, if any, there are on the promises we can make and fulfill. How many promissory notes, in other words, can Fed and Treasury issue without 'over-promising'?

This is, effectively, the question of inflation – the question of promises' outstripping capacity to redeem promises and hence losing credibility as promises. (The 'cred' of 'credibility' is the 'cred' of 'credit,' not to mention of 'credo' – or 'faith.') This is precisely why lawyers, accountants, and economists schooled in the simple mechanics of public finance always tell you the relevant constraint upon spending is not some non-existent 'fundraising constraint,' but 'the inflation constraint,' also known as 'the resource constraint.'

The truth of the resource constraint is that money usually can be publicly issued and spent only at a rate commensurate with new goods and services supply. If the money supply grows too rapidly for goods and services to keep up, you get the old problem of 'too many dollars chasing too few goods' – inflation. If the money

supply grows too slowly to keep up with productive capacity, you get the opposite problem – deflation, a far more serious threat, as we've seen since the crash of '08.

Over the past four decades or so, inflation in consumer goods markets – so-called 'Consumer Price Inflation,' or 'CPI' – has been by and large nonexistent in the 'developed' world. Our problem has been just the opposite – deflation. That is what slow, 'anemic,' and even 'negative' growth rates across the 'mature' economies in recent decades have been about. What inflation we've had has been concentrated in financial markets, where the ever-more rich in our ever-more unequal societies gamble their winnings. Meanwhile those below the top have had to spend less and borrow more, bringing deflation and, worse still, debt-deflations after the financial crashes inevitably brought on by asset price hyperinflations in our financial markets.

Which takes us to the Green New Deal. Representative Ocasio-Cortez, whose educational background is in economics, understands as few leaders seem to do that our problems of late have been problems of deflation, not inflation. She also knows well that both inequality and the loss of our middle class have both caused and been worsened by these deflationary trends, along with their mirror images in the financial markets: our asset price hyperinflations – 'bubbles' – and busts. Her Green New Deal aims to do nothing short of reversing this slow-motion national suicide – and end our ongoing 'planet-cide' in the process.

Because the Green New Deal aims at reversing undeniable long-term deflationary trends in our national economy, there is reason already to deem inflation fears, sure to be stoked by conservative pundits and scared politicians, a silly canard. But we can go further than this. We can catalogue *theoretical, empirical, and policy instrument reasons* to laugh such fears off.

The *theoretical* case against inflation worries is straightforward and comes in two parts. Recall the popular 'too much money chasing too few goods' adage above. What this slogan captures is that inflation is always a *relational matter*. It's about money supply in relation to goods and services supply.

The Green New Deal aims to stoke massive production of a vast array of new products, from solar panels to windmills to new battery and charging station

technologies to green power grids and hydroelectric power generation facilities. The new production and new productivity that renewed infrastructure will bring will be virtually unprecedented in our nation's history. This will be more than enough to absorb all new money spent into our economy. It will also distinguish the Green New Deal starkly from pseudo-stimulus plans of the recent past, none of which flowed to production or infrastructure and nearly all of which simply inflated financial markets.

The second theoretical reason not to fret about Green New Deal inflation is related to but distinct from the first. It is that our economy now is operating at far below capacity even as is, before the Green New Deal adds to capacity. Labor force participation rates still languish at historic lows, and wages and salaries have yet to catch up even to such little growth as we've had since our crash of ten years ago. Indeed they have stagnated for decades. These are classic indicators of slack – slack which by definition is opportunity-squandering, and which the Green New Deal now aims to 'take up.'

The *empirical* case against inflation worries corroborates the theoretical case, and can also be made from a number of angles. Note first that billions of dollars in tax cuts flowed into the economy during the Reagan years, while multiple trillions more in both tax cuts and war spending flowed during the George W. Bush years. The tax cuts of December 2017 pumped yet more trillions – two of them – into the economy just a bit over a year ago. And still we have seen nothing – nothing – in the way of undesired price inflation in consumer goods and services markets. Indeed *no* 'developed' economy has seen significant CPI inflation for some *forty years*. Why do inflation 'Chicken Littles' think 'this time [or place] is different?'

My referring to 'undesired' price inflation just now hints at another empirical reason to scoff at inflation scolds. Since 2012, the Fed has formally aimed at a 2% inflation target that it has informally targeted even longer. Yet in only a few quarters during all of these years has

Rep. Alexandria Ocasio-Cortez, D-N.Y, and Rep. Jahana Hayes, D-Conn., stand together on the House floor at the U.S. Capitol in Washington, Thursday, Jan. 3, 2019, on the first day of the 116th Congress with Democrats holding the majority. (AP Photo/Carolyn Kaster) ASSOCIATED PRESS

it managed, just barely, to reach it. If the Fed with its massive balance sheet cannot get our inflation rate up to its very low 2% target even while *trying* to do so, why does Chicken Little think things will grow scary even should the Fed seek one day to tamp prices *down*?

The final empirical reason to dismiss the inflation Scaredy Cats comes from investors themselves. For years now the Treasury Department has issued 'inflation-protected' securities along with traditional ones. The 'spread' between prices of the former and prices of the latter is effectively a measure of investors' inflationary expectations: if they are willing to pay substantially more for inflation-protected than for ordinary Treasurys, they have substantial inflation fears; otherwise not. So what is that spread? It is virtually nil, and has been for years.

But what if the Green New Deal works so well that inflation comes anyway, Chicken Little now asks, notwithstanding all the theoretical and empirical reasons to discount such worries? Here we find even more reasons for comfort. For the 'toolbox' of counter-inflationary *policy instruments* is filled to near overflowing. Let's consider a few of them.

We can begin with the familiar. Targeted taxes and bond sales, long familiar to most of us, have long been employed to absorb 'excess money' during times of high growth. This is precisely what they are *for*. Because money is issued by citizenrys rather than citizens as noted above, sovereign taxes and bond sales are never about 'raising money,' but about 'lowering money *aggregates*.' If inflation

should one day emerge, we shall use them accordingly. Once again: always have, always will.

We should note also that such tools can be targeted at specific *sources* of inflation. A financial transaction tax such as that favored by Representative Ocasio-Cortez and Senator Bernie Sanders, for example, would operate on financial market inflation – asset price 'bubbles' – of the sort that have plagued us in recent years. A 'value added tax' – a 'VAT' – on particular items that become objects of speculation would work similarly. Such are the real aims of taxation – to act on incentives and press down on price pressures – not to 'raise money' we already issue. We know how to use them, and can use them again should it ever prove necessary.

Similar truths hold of the other familiar anti-inflationary policy instrument just mentioned – sovereign bond sales. Treasury already offers a variety of these instruments, classified by time-to-maturity and yield. Such classification offers the option of soaking up money from different sectors of society, from those seeking short-term yield to those seeking longer-term yield. These sales are swaps of unspendable instruments for spendable instruments – dollars, a.k.a. 'legal tender.' The New York Fed trading desk does this daily to fine-tune the money supply – we call its activities 'open market operations.' It would do likewise, save in the opposite direction, were inflation ever again to become 'a thing.'

Turning now to less familiar policy instruments, note next that much of financial regulation both can be and should be deployed in the cause of what I call money modulation – that is, inflation- and deflation-prevention. Banks 'create' – they *generate* – money by lending; any banker will tell you that. So do most other financial institutions – especially those of the so-called 'shadow banking' sector. This is the sense in which credit is money, or what smart economists call 'credit-money.'

Regulations that we impose upon credit-extension are accordingly regulations on money-creation. Require banks to raise more equity capital per dollar's worth of credit that they extend, and you effectively lessen the amount of dollar-denominated credit, hence money, that they can generate. Place greater limits on what *kinds* of lending or investing they can do, and you do likewise.

We call these things ‘capital’ (or ‘leverage’) and ‘portfolio’ regulation, respectively. And though we initially developed them to protect individual institutions and their depositors or investors, we now use them also to modulate credit aggregates economy-wide. It’s called ‘macroprudential regulation,’ and its rediscovery post-crash in the last decade is one of the signal achievements of the post-crisis era. But its importance for Green New Deal purposes is that it’s a powerful anti-inflationary as well as anti-deflationary tool, all thanks to money’s relation to credit.

As if these tools were not enough, there are yet others we *could* use but *don’t* use as yet, presumably because we’ve not needed to yet. I’ve proposed these in other work. One is for the New York Fed trading desk to buy or sell not only Treasury securities of varying maturities and yields, but also other financial instruments – in order to target specific prices of broad economic significance when they grow too low or too high (what I call ‘systemically important prices’).

During the Fed’s experiments with ‘quantitative easing’ (‘QE’), for example, commodity prices ended up rising in ways that harmed lower income Americans. I therefore proposed the Fed ‘short’ commodities in its open market operations to put downward pressure on their prices. Though I worked at the Fed at the time, the central bank didn’t take me up on my suggestion. But it *could* have done so. And it can in the future, in as narrowly targeted a manner as necessary, if ever inflation emerges. And with a balance sheet of its size, it can influence prices quite massively.

A final way we might combat inflation, should it ever emerge, is by use of a new infrastructure that I’ve proposed elsewhere. Suppose, for a moment, that the Fed offered what I call interest-bearing ‘Citizen Accounts’ for all citizens, instead of just offering ‘reserve accounts’ to privileged banks as it does now. Were it to do so, we’d not only eliminate our nation’s ‘financial inclusion’ problem in one swoop, we’d also gain a most powerful money modulation tool.

During deflations like that after 2008, for example, the Fed could drop debt-free ‘helicopter money’ directly into Citizen Accounts rather than giving it to banks in the hope that they’ll lend (which they didn’t – hence the notorious ‘pushing on a string’ problem of the post-2008 period). And were inflation ever to emerge, the

Fed could likewise simply raise interest rates on Citizen Accounts, thereby inducing more saving and less spending.

I believe that the 'fintech' revolution renders something like what I'm proposing here all but inevitable. The point for present purposes, though, is simply that once this thing happens we'll have yet another quite powerful anti-inflationary *and* anti-deflationary policy tool – and therefore yet more reason not to be timid about moving ahead energetically with the Green New Deal.

Have I succeeded, then? Have I convinced you both that there isn't a 'pay for' challenge and that there isn't, thanks to a multitude of theoretical, empirical, and policy lever reasons, an 'inflation' challenge either? If you are bold, know finance, and care about our future, you probably didn't need much convincing. If instead you are frightened, financially untutored, or cavalier about our economy or our planet, please buck up, wise up, and suit up. It is time to say *game on* for the Green New Deal.

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